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CRIST, CRIST, GRIFFITHS, BRYANT, SCHULZ & BIONDO
A PROFESSIONAL CORPORATION
880 HAMILTON AVENUE
PALO ALTO, CALIFORNIA 94301
TELEPHONE (415) 321-8000

ATTORNEYS FOR Defendant and Cross-Complainant Exidy, Inc.

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF SAN DIEGO

CINEMATRONICS, INC.,
a California corporation,

Plaintiff,

v.

VECTORBEAM, a California
corporation; EXIDY, INCORPORATED,
a California corporation;
and DOES I through X, inclusive,

Defendants.

No. 451437

CROSS-COMPLAINT FOR
DAMAGES AND REFORMATION

Comes now by way of cross-complaint, EXIDY, INC. (for convenience herein referred to as "Plaintiff") and alleges against Cross-Defendant CINEMATRONICS (for convenience herein referred to as "Defendant") as follows:

FIRST CAUSE OF ACTION

(FRAUD)

I

Exidy, Inc., is and at all times herein mentioned was a corporation duly organized and existing under the laws of the State of California, with its principal place of business in Santa Clara County.

II

Cinematronics, Inc., is, and at all times herein mentioned was, a corporation duly organized and existing under the laws

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1 of the State of California.

2 III

3 By the terms of the Stock Purchase Agreement at issue
4 in this action, the parties thereto agreed that venue in an
5 action on said Stock Purchase Agreement would be proper in
6 Santa Clara County.

7 IV

8 Plaintiff alleges on information and belief that Phillip S.
9 DeCaro was at all relevant times herein a shareholder and
10 director of Cinematronics, Inc. Plaintiff alleges that Jim
11 Pierce and Thomas B. Stroud, Jr., were at all times herein
12 officers and directors of Cinematronics, Inc.

13 V

14 At all times herein mentioned, Phillip S. DeCaro, Jim Pierce
15 and Thomas B. Stroud, Jr., were authorized and empowered by
16 Cinematronics, Inc., to act, and did act as the agent of
17 Cinematronics, Inc., and each and all of the things herein
18 alleged to have been done by them were done in the capacity
19 of and as agent for said Cinematronics.

20 VI

21 Plaintiff is informed and believes and thereon alleges
22 that at all times herein mentioned each of the defendants was
23 the agent and employee of each of the remaining defendants,
24 and in doing the things hereinafter alleged, was acting within
25 the scope of such agency.

VII

Plaintiff is ignorant of the true names and capacities of defendants sued herein as DOES 1-100, inclusive, and therefore sues these defendants by such fictitious names. Plaintiff will amend this complaint to allege their true names and capacities when ascertained.

VIII

On or about November, 1979, at Sunnyvale, California, plaintiff and defendants, and each of them, entered into a series of negotiations for the purchase of 390,000 shares of common stock representing all of the issued and outstanding shares of Vectorbeam, a California corporation, by plaintiff, from Cinematronics, Inc. Plaintiff was represented by H. Kauffman. Defendant Cinematronics, Inc., was represented by Phillip S. De Caro, an attorney, licensed to practice law in California.

IX

As a result of these negotiations, on or about December 5, 1979, in Santa Clara County, plaintiff, through its officers H. R. Kauffman and Howell Ivy, and defendant Cinematronics, Inc., through its officers Jim Pierce and Thomas B. Stroud, Jr., executed a Stock Purchase Agreement drafted by defendant Cinematronics' agent, Phillip S. DeCaro. A copy of said Stock Purchase Agreement is attached hereto as Exhibit "A" and incorporated herein by reference. Vectorbeam executed a Corporate Installment Note drafted by defendant Cinematronics' agent, Phillip S. DeCaro in favor of defendant Cinematronics,

1 Inc., in the amount of \$526,942.00, as payment for all of
2 on which plaintiff liable by virtue of its guarantee.
the issued stock of Vectorbeam/ A copy of said Corporate
3 Installment Note is attached hereto as Exhibit "B" and
4 incorporated herein by reference. The Stock Purchase Agreement
5 provides that in the event of any controversy, claim or
6 dispute between the parties hereto, arising out of or relating
7 to this agreement or any breach thereof, the prevailing
8 party shall be entitled to recover from the losing party
9 reasonable expenses, attorney's fees and costs.

10 X

11 Prior to execution of the Stock Purchase Agreement,
12 defendant Cinematronics, Inc., made a series of false and
13 fraudulent representations to plaintiff including the following:

14 1. That the financial statements and information on
15 Vectorbeam delivered to plaintiff fairly presented the
16 financial condition of Vectorbeam as of that date and fairly
17 outlined the results of Vectorbeam's operation for the
18 periods indicated, in accordance with generally accepted
19 accounting principles consistently applied.

20 2. That Vectorbeam was not subject to any undisclosed
21 liability or liabilities of any kind, absolute or contingent.

22 3. That Vectorbeam was not a party to any contracts
23 or commitments of any kind except those disclosed in the Stock
24 Purchase Agreement executed on December 5, 1979.

25 4. That the Stock Purchase Agreement accurately and truly
26 reflected the terms of that Stock Purchase Agreement as they

1 had been agreed to by the parties to the Stock Purchase Agreement.

2 5. That the inventory of Vectorbeam was accurately valued.

3 6. That Vectorbeam's accounts receivable represented only
4 amounts legitimately believed to be owed to Vectorbeam.

5 7. That Vectorbeam's accounts payable represented only
6 amounts owed by Vectorbeam for goods and services sold and
7 delivered to Vectorbeam.

8 8. That defendant Cinematronics would permit the Corporate
by virtue of its guarantee
9 Installment Note, whereby plaintiff/promised to pay Cinematronics
10 \$487,160 in monthly installments of \$35,000, to be subordinated
11 under normal and usual terms to loans made by institutional
12 lenders for inventory and accounts receivable financing.

13 9. That the subsequent adjustments provision contained
14 in the Stock Purchase Agreement (paragraph 6) would protect
15 plaintiff from any liability arising out of plaintiff's
16 reliance on the interim and preliminary financial information,
17 which defendant Cinematronics furnished to plaintiff.

18 XI

19 The representations made by defendants, and each of them,
20 were in fact false. The true facts were:

21 1. The financial statements and information on Vectorbeam
22 delivered to plaintiff did not fairly outline the results of
23 Vectorbeam's operation for the periods indicated. Instead,
24 the financial statements provided materially overvalued
25 inventory and accounts receivable of Vectorbeam, and they
26 failed to disclose contractual liabilities owed by Vectorbeam.

1 Vectorbeam was, in fact, subject to material liabilities
2 not incurred in the ordinary course of business, which were not
3 disclosed at any time in the negotiations or in the Purchase
4 Agreement itself. Specifically, an equipment and furniture
5 lease and an automobile lease, copies of which leases are
6 attached hereto as Exhibits "C" and "D" respectively and
7 incorporated by reference, were not disclosed.

8 3. Vectorbeam was, in fact, a party to material contracts
9 and commitments not disclosed in the Stock Purchase Agreement,
10 including an equipment and office furniture lease and an
11 automobile lease. (Refer to Exhibits "C" and "D" attached)

12 4. The Stock Purchase Agreement did not accurately and
13 truly reflect the terms of that Stock Purchase Agreement as
14 they had been agreed to by the parties to the Stock Purchase
15 Agreement. The Stock Purchase Agreement incorporated a provision
16 whereby plaintiff assumed liability on the Gil Levine Employment
17 Agreement, a copy of which is attached hereto as Exhibit "E" and
18 incorporated by reference. The inclusion of this provision was
19 directly contrary to the understanding of all parties to the
20 contract.

21 5. The inventory of Vectorbeam was not accurately valued
22 In fact, it was overvalued by an amount believed to be in excess
23 of \$325,000.00.

24 6. Vectorbeam's accounts receivable did not represent only
25 amounts legitimately believed to be owed to Vectorbeam. In fact,
26 it included a debt in the amount of \$19,678.18 which the creditor,

1 R. H. Belam Co., had set off against monies owed to said creditor
2 by Cinematronics.

3 7. Vectorbeam's accounts payable did not represent only
4 amounts owed by Vectorbeam for goods and services sold and
5 delivered to Vectorbeam. Rather, they included a debt
6 allegedly owed by Vectorbeam to L & M Sheet Metal Fabricating
7 in the amount of \$14,344.00 for goods not delivered to
8 Vectorbeam.

9 8. Cinematronics has refused and continues to refuse to
10 subordinate the Corporate Installment Note of plaintiff.

11 9. The Subsequent Adjustments provision of the Stock
12 Purchase Agreement does not, in fact, protect plaintiff from
13 any damages caused by plaintiff's reliance on the interim
14 and preliminary financial information.

15 XII

16 When defendants, and each of them, made the above
17 representations they knew them to be false, and these representa-
18 tions were made by defendants, and each of them, with the
19 intent to defraud and deceive plaintiff and with the intent
20 to induce plaintiff to act in the manner herein alleged.

21 XIII

22 Plaintiff, at the time these representations were made by
23 defendants, and each of them, and at the time plaintiff took
24 the actions herein alleged was ignorant of the falsity of
25 defendants', and each of their, representations and believed
26

1 them to be true. In reliance on these representations
2 plaintiff was induced to and did execute the above-mentioned
3 Stock Purchase Agreement and Installment Note referenced above
4 in paragraph IX. Had plaintiff known the actual facts it
5 would not have taken such actions. Plaintiff's reliance on
6 defendants', and each of their, representations was justified
7 because defendants, and each of them, controlled Vectorbeam
8 and had access to all of its books and records, and assured
9 plaintiff that the representations and warranties made were
10 accurate and true and that it would carry out its contractual
11 obligations.

12 XIV

13 As a proximate result of defendants', and each of their,
14 fraud and deceit and the facts herein alleged, plaintiff was
15 induced to execute the above-mentioned Stock Purchase Agreement
16 and to purchase all of the issued and outstanding shares of
17 Vectorbeam for a materially inflated price.

18 XV

19 As a further proximate result of defendants', and each of
20 their, fraud and deceit, plaintiff became liable on a
21 contract it had expressly refused to accept liability for, became
22 liable for undisclosed liabilities and contracts of Vectorbeam,
23 and assumed liability for goods not delivered to Vectorbeam.

24 XVI

25 As a further proximate result of defendants', and each of
26 their, fraud and deceit and the facts alleged herein, plaintiff

1 was induced to execute the above-mentioned Corporate Installment
2 Note in an amount in excess of its real value. By reason of
3 the facts herein alleged, plaintiff has been damaged in a
4 sum not yet ascertained. Accordingly, plaintiff prays leave to
5 amend this Complaint when said sums are ascertained.

6
7 XVII

8 In doing the acts herein alleged, defendant acted with
9 oppression, fraud and malice, and plaintiff is entitled to
10 punitive damages in the sum of \$250,000.00

11 SECOND CAUSE OF ACTION
(NEGLIGENT MISREPRESENTATION)

12 I

13 Plaintiff hereby incorporates by reference paragraphs
14 I through XI, inclusive, of the First Cause of Action.

15 II

16 Defendants, and each of them, made these representations
17 with no reasonable ground for believing them to be true.
18 Plaintiff is informed and believes and thereon alleges that
19 defendants, and each of them, did not have accurate information
20 upon which to base their representations. At the time of
21 making these representations and at all times thereafter
22 relevant, defendants, and each of them, concealed from plaintiff
23 their lack of information and their consequent inability to
24 make the alleged representations accurately.

25 III

26 These representations were made by defendants, and each of

1 them, with the intention to induce plaintiff to act in the
2 manner herein alleged.

3 IV

4 Plaintiff hereby incorporates by reference paragraphs
5 XIII through XVI, inclusive, of the First Cause of Action.

6
7 THIRD CAUSE OF ACTION
8 (REFORMATION)

9 I

10 Plaintiff hereby incorporates by reference paragraphs I
11 through VII, inclusive, of plaintiff's First Cause of Action.

12 II

13 Prior to December 5, 1979, plaintiff and defendants,
14 and each of them, orally agreed on the terms of the Vectorbeam
15 stock purchase (referenced above in plaintiff's First Cause of
16 Action), and the method of ascertaining the purchase price
17 for plaintiff's purchase of all of the issued shares of
18 Vectorbeam.

19 III

20 On or about December 5, 1979, said oral agreements were
21 purported to be put into writings in the form of a Stock Purchase
22 Agreement and a Corporate Installment Note.

23 Said writings were drafted by defendant's agent, Phillip S.
24 DeCaro, and plaintiff signed said writings in reasonable
25 reliance on Phillip S. DeCaro's representation that said
26 written agreements accurately and actually embodied said

1 oral agreement, and without knowledge that they did not represent
2 said oral agreement. Plaintiff's reliance on the conformity of
3 the Stock Purchase Agreement to the oral agreement was reasonable
4 in that defendant had orally acquiesced to plaintiff's demand that
5 defendant hold plaintiff harmless on the Gil Levine Employment ,
6 Agreement, and defendant had assured plaintiff that the Stock
7 Purchase Agreement would reflect that understanding. Plaintiff's
8 reliance on defendant's assurances that the Promissory Note
9 accurately embodied the agreement of the parties was reasonable
10 due to the fact that defendants, and each of them, alone had
11 access to the total financial, operational and inventory
12 records of Vectorbeam, and the fact that defendants, and
13 each of them, had assured plaintiff orally and in writing
14 that the inventory was accurately valued.

15 V

16 Said written agreement did not represent said oral
17 agreement to which plaintiff agreed in numerous respects,
including the following:

18 Although plaintiff and defendants, and each of them,
19 had expressly agreed that plaintiff would not assume liability
20 on the Gil Levine Employment Contract, the Stock Purchase
21 Agreement purports to hold plaintiff liable on this employment
22 contract. Further, plaintiff and defendants, and each of them,
23 had expressly agreed that the purchase price paid by plaintiff
24 and embodied in the Corporate Installment Note would be
25 determined on the basis of an accurate inventory valuation;
26 in fact, the inventory was valued at a figure which exceeds
the actual value of the inventory by an amount in excess of
\$325,000, and the amount of the Corporate Installment Note

1 fails to reflect this discrepancy.

2 VI

3 Defendants, and each of them, knew that said written
4 instruments did not represent the oral agreements and made
5 said representations with the intent that plaintiff rely on
6 them.

7 VII

8 Defendants, and each of them, prepared and executed
9 said agreements for the sole purpose of defrauding plaintiff.

10 VIII

11 Plaintiff discovered said error and thereafter notified
12 defendants, and each of them, of same and asked for a revision
13 of said written agreements to conform to the true agreements,
14 but defendants, and each of them, refused and continue to
15 refuse to consent to said revision.

16
17 FOURTH CAUSE OF ACTION

18 I

19 Plaintiff hereby incorporates by reference paragraphs I
20 through IX of plaintiff's First Cause of Action.

21 II

22 On or about December 5, 1979, plaintiff and defendants, and
23 each of them, entered into a written Stock Purchase Agreement
24 whereby defendants, and each of them, agreed to sell to
25 plaintiff 390,000 shares of the common stock of Vectorbeam,
26 Inc., a California corporation.

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III

Pursuant to the agreement alleged in paragraph II herein, and plaintiff guaranteed Vectorbeam executed a Corporate Installment Note in the amount of \$526,942.00 in favor of defendant Cinematronics as full payment of the securities. Plaintiff made the first \$35,000 installment payment due under the note when it came due on or about March 1, 1980.

IV

Prior to the payment by plaintiff to defendant Cinematronics of the consideration for the securities as alleged in paragraph III herein, defendant Cinematronics warranted to plaintiff that the Vectorbeam inventory, which is the principal asset of the corporation, was accurately valued in accordance with generally accepted accounting practice consistently applied.

V

In truth and in fact, the Vectorbeam inventory which is the principal asset of the corporation is not accurately valued in accordance with generally accepted accounting practices consistently applied in that it overstated the value of the inventory in excess of \$325,000.00.

VI

As a result of the above-described transaction, plaintiff has suffered damages compensable under Corporations Code, § 25501, in an amount unknown at this time. Plaintiff prays leave to amend this Complaint when said sums are ascertained.

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FIFTH CAUSE OF ACTION

I

Plaintiff hereby incorporates by reference paragraphs I through IX of plaintiff's First Cause of Action.

II

Plaintiff hereby incorporates by reference paragraphs II through III of plaintiff's Fourth Cause of Action.

III

By the terms of the Stock Purchase Agreement, defendants, and each of them, disclosed that the sale of securities in question had not been qualified by the California Commissioner of Corporations. By the terms of the Stock Purchase Agreement defendants, and each of them, further stated that until such qualification had been obtained, any purported sale of Vectorbeam securities would be void.

IV

Prior to the payment by plaintiff to defendants, and each of them, of the consideration for the securities as alleged in paragraph II herein, defendants, and each of them, warranted to plaintiff that the required consent to transfer had been obtained from the Commissioner of Corporations.

V

In truth and in fact, the required consent to transfer had not been obtained by defendants, and each of them, from the Commissioner of Corporations, and the sale did not

1 comply with the provisions of the California Corporate
2 Securities Law of 1968.

3 VI

4 As a result of the above-described transaction, plaintiff
5 has suffered damages in an amount unknown at this time. Plaintiff
6 prays leave to amend this Complaint when the amount of said
7 damages is ascertained.

8
9 SIXTH CAUSE OF ACTION
10 (BREACH OF CONTRACT)

11 I

12 Plaintiff hereby incorporates by reference paragraphs I
13 through IX of plaintiff's First Cause of Action.

14 II

15 Plaintiff's duty of performance of the Stock Purchase
16 Agreement is subject to the express condition that all of
17 defendants', and each of their, warranties and representations
18 made in the Stock Purchase Agreement are substantially correct.

19 III

20 Plaintiff has performed all conditions, covenants and
21 promises under the contract on his part to be performed except
22 tender of the April 1, 1980 payment in the amount of \$35,000,
23 performance of which was excused on the ground that defendants',
24 and each of their, material breach of the contract excused
25 plaintiff's duty of performance and on the further ground
26 that plaintiff's duty of performance was excused by the

1 failure of the express condition that all of defendants', and
2 each of their, warranties and representations were substantially
3 true.

4 IV

5 Prior to the filing of this Complaint, defendants, and each
6 of them, breached the Stock Purchase Agreement in several
7 respects, including the following:

8 1. Failure of consideration in that the Vectorbeam
9 inventory which is the principal asset of the corporation
10 was materially over-valued.

11 2. Prior to the filing of this Complaint, defendants, and
12 each of them, further breached the Stock Purchase Agreement
13 by breach of the warranty that all financial statements and
14 information delivered to plaintiff by defendants, and each of
15 them, fairly presented the financial condition of the company
16 as of that date and fairly outlined the results of its operation
17 for the periods listed in accordance with generally accepted
18 accounting practices consistently applied.

19 3. Prior to the filing of this Complaint defendants, and
20 each of them, further breached the Stock Purchase Agreement
21 in that defendants, and each of them, failed and refused and
22 have continued to fail and refuse to agree to permit the
23 subordination of the Corporate Installment Note to inventory and
24 accounts receivable financing by institutional lenders.

25 V

26 As a result of defendants', and each of their, breach of

1 the Stock Purchase Agreement, plaintiff has been damaged in
2 an amount not yet ascertained. Plaintiff prays leave to amend
3 this Complaint when said sums are ascertained.

4
5 SEVENTH CAUSE OF ACTION

6 I

7 Plaintiff hereby incorporates by reference paragraphs I
8 through IX of plaintiff's First Cause of Action.

9 II

10 By the terms of the above-mentioned Stock Purchase Agreement
11 defendants, and each of them, warranted that the financial
12 statements and information delivered to plaintiff fairly
13 present the financial condition of the company as of that
14 date and fairly outline the results of its operations for
15 the periods indicated, in accordance with generally accepted
16 accounting principles consistently applied. Said Stock
17 Purchase Agreement further provides for arbitration in the
18 event that plaintiff believes that adjustments to the purchase
19 price are necessary because of overstatement of accounts
20 receivable, a material omission of notes payable or accounts
21 payable and/or significant inventory shortages due to physical
22 shortages, not write-downs for obsolescence.

23 III

24 An actual controversy has arisen and now exists relating
25 to the rights and duties of the parties herein in that plaintiff
26 contends that the arbitration clause of the Stock Purchase

1 Agreement is invalid and unenforceable for the reason that
2 it fraudulently omits to provide a remedy for the most
3 significant discrepancy in the financial statements - overvaluation
4 of inventory based on obsolescence. Defendants, and each of
5 them, dispute this contention and assert that said fact does
6 not affect the validity of said arbitration provision of the
7 Stock Purchase Agreement.

8 IV

9 Plaintiff desires a judicial determination of its rights
10 and duties, and a declaration as to which party's interpretation
11 of the Stock Purchase Agreement is correct.

12 V

13 Such a declaration is necessary and appropriate at this
14 time in order that plaintiff may ascertain his rights and duties.

15
16 EIGHTH CAUSE OF ACTION
17 (INDEMNITY)

18 I

19 Plaintiff hereby incorporates by reference paragraphs I
20 through IX of plaintiff's First Cause of Action.

21 II

22 Said Stock Purchase Agreement purports to hold plaintiff
23 liable on the Gil Levine Employment Agreement.

24 III

25 That incidental to the Stock Purchase Agreement plaintiff
26 and defendants entered into a written agreement, a copy of which

1 is attached hereto as Exhibit "F" and made a part hereof,
2 whereby defendant promised to indemnify plaintiff and hold him
3 harmless from liability on the Gil Levine Employment Contract.

4 IV

5 That on or about March 17, 1980, Gil Levine made a claim ,
6 against Vectorbeam and plaintiff herein arising out of said
7 employment agreement.

8 V

9 Plaintiff has tendered to plaintiff the defense and
10 indemnification of said claim, but defendant has refused to
11 defend and/or indemnify plaintiff herein.

12 VI

13 Plaintiff has been forced to incur, has in fact incurred,
14 and will continue to incur, attorney's fees and costs in
15 defending the action of Gil Levine. When the exact and full
16 amount of such fees and costs becomes known to plaintiff, it
17 will move to amend this Complaint to state such amount.

18 VII

19 Plaintiff desires a judicial declaration that defendant is
20 obliged to defend and indemnify plaintiff herein, and should
21 plaintiff suffer any costs or expenses hereby, plaintiff be
22 awarded judgment against defendant in a like sum.

23 WHEREFORE, plaintiff prays judgment as follows:

- 24 1. For compensating damages according to proof.
25 2. For punitive damages in the sum of \$250,000.00
26 3. For attorney's fees.

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4. For costs of suit incurred herein;

5. That the Stock Purchase Agreement be reformed to show the real intent of the parties.

6. That the Corporate Installment Note be reformed to show the true intent of the parties.

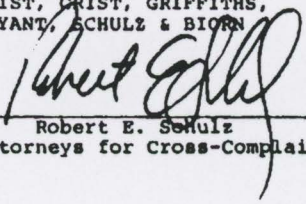
7. That plaintiff be awarded such other and further relief as is just and reasonable under the circumstances.

8. For a declaration that the arbitration provision of the Stock Purchase Agreement is void and of no force and effect.

9. For a declaration that defendant Cinematronics is obliged to defend and indemnify plaintiff herein against any claims made under the Gil Levine Employment Agreement.

Dated: May 22, 1980.

CRIST, CRIST, GRIFFITHS,
BRYANT, SCHULZ & BIORN

By 
Robert E. Schulz
Attorneys for Cross-Complainant

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STOCK PURCHASE AGREEMENT

THIS AGREEMENT, effective as of the 30th of November, 1979, between CINEMATRONICS, INC., a California corporation (hereinafter called "Seller"), and EXIDY, INC., a California corporation (hereinafter called "Purchaser").

W I T N E S S E T H:

Seller and Purchaser state and agree as follows:

1. Representations and Warranties: Seller represents and warrants to the Purchaser, and this agreement is made in reliance upon the following:

(a) VECTORBEAM (the "Company") has been duly incorporated, and is validly existing and in good standing as a corporation under California law.

(b) The Company has a total of Three Hundred Ninety Thousand (390,000) shares of capital stock (the "Shares") outstanding and no more; all of the Shares have been legally and validly issued, and are fully paid and nonassessable; [and the Company has no outstanding obligations, understandings, or commitments regarding the issuance of any additional shares, or any options, rights or warrants concerning the issuance of any additional shares or securities convertible into shares.

Phillip Seymour DeCora

A LAW CORPORATION
80 CIERVO ROAD
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 851-2880

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(c) Seller owns beneficially and of record

Three Hundred Ninety Thousand (390,000) Shares. Seller has good, marketable and indefeasible title to; full power of disposition over; and has full right to sell and transfer to the Purchaser all Shares to be sold by Seller. [The Shares are free of all liens, claims, debts or other encumbrances, and shall be free of all such liens, claims, debts or other encumbrances upon their transfer, to the Purchaser under this agreement.]

(d) Seller has delivered to Purchaser financial information on the Company as attached. [These financial statements and information fairly present the financial condition of the Company as of their date and fairly outline the results of its operations for the periods indicated, in accordance with generally accepted accounting principles consistently applied.] There has not been any material adverse change in the financial condition or operations of the Company from that shown on these reports nor have there been any other changes in such condition except changes occurring in the ordinary course of the Company's business. There have been no dividends or other distributions made by the Company to its shareholders, nor has it purchased, redeemed or otherwise acquired any shares of its outstanding stock.

(e) The Company is not subject to any material liability or liabilities of any kind, absolute or contingent, not disclosed, except liabilities (none of which is material) incurred in the ordinary course of business.

(f) The Company is not a party to any material contracts or commitments of any kind except: Real Property Lease; 1979-80 Cinematronics' License and Royalty Agreement (which is being cancelled); Levine Employment contract; Bank of America account receivable financing; contingent claims of Ken Bouck, Hal Watner, and Paul Jacobs; Cinematronics' Note payable (principal of One Hundred Fifty Thousand (\$150,000) Dollars; and Rosenthal

Notes payable (total principal of Two Hundred Ninety-five Thousand (\$295,000) Dollars), Copies of the Real Property Lease, Cinematronics' License and Royalty Agreement, Levino Employment Contract, the Bank of America account receivable financing documentation, and all corporate Notes have been furnished to Exidy. Cinematronics will hold Exidy harmless from all claims of Bouck, Watner and Jacobs against Vectorbeam. Exidy will fully cooperate in all defense efforts of Cinematronics vis-a-vis these contingent claims.

2. Sale of Shares: At the Closing, Seller shall sell, transfer and deliver to the Purchaser all of its shares for a purchase price of One (\$1.00) Dollar, the other valuable consideration set forth in this agreement, and the execution of the Mutual Cross License and Royalty Agreement between Cinematronics, Inc., Mr. Jim Pierce, Mr. Thomas B. Stroud, Jr., Vectorbeam and Exidy, Inc. in the form attached.

3. Closing: The sale and purchase of the Shares shall be consummated at Union City, California, on or before December 15th, 1979, or as soon thereafter as permitted by the California Commissioner of Corporations, by delivery to Purchaser, or its agent, of Certificates for all the Vectorbeam Shares duly endorsed for assignment and transfer, or accompanied by duly executed stock powers with signatures as approved by Purchaser, and by delivery of a fully executed license and royalty agreement. The effective date of the sale shall be November 30, 1979.

4. Conditions of Purchaser's Obligations: Purchaser's obligation to purchase the Shares from Seller is subject to the following conditions:

(a) The representations and warranties of Seller as stated in this agreement shall be substantially true.

(b) Seller shall deliver to Purchaser on or before the Closing Date the resignations of all Directors and Officers of Vectorbeam.

(c) All of the Shares shall be concurrently sold

Phillip Seymour DeCora

A LAW CORPORATION
80 CIERVO ROAD
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 881-2000

to Purchaser.

(d) The Mutual Cross License and Royalty Agreement shall be fully executed.

5. Inspection by Purchaser: Purchaser acknowledges and agrees it has had access to Vectorbeam and its books and records and has found no material misstatement of fact by Seller.

6. Subsequent Adjustments: Exidy has received financial information which, while interim and preliminary, is believed accurate. A copy of the balance sheet is attached. [Exidy is relying on the reasonable accuracy of the accounts receivable, corporate Note obligations, accounts payable and inventory information provided.] However, if after the close, and before March 1st, 1980, Exidy believes that adjustments are necessary based on an overstatement of the accounts receivable, or a material omission of Notes payable or accounts payable and/or significant inventory shortages, then Exidy shall so advise Cinematronics, specifying the reasons and grounds for the proposed adjustments. The parties agree that adjustments plus or minus \$50,000 are not material and adjustments based on inventory "write downs" (not based on physical shortages) will not be applicable to any valuation adjustment for purposes of this agreement. If Cinematronics disagrees with the proposed adjustment(s), within 30 days it may request arbitration. Each of the parties will nominate a CPA and if they cannot agree, then a third CPA will be selected by the first two CPAs, and his decision will be final and binding between the parties. If adjustments are made, the amounts shall be added or subtracted from the Note payments due Cinematronics starting in 1981.

7. Representations Regarding Bank of America: Should Exidy desire to retain the existing Bank of America account receivable financing, this will be solely between Exidy and Bank of America. If this financing is going to continue, all guarantees given Bank of America by Cinematronics and its principals shall be immediately

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Phillip Seymour DeCora

A LAW CORPORATION
20 CIERVO ROAD
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 881-3900

8. Other Guarantees: If Cinematronics and/or its principals have guaranteed any vendors of Vectorbeam, all such guarantees shall be superseded as to future Vectorbeam transactings taking place after this sale.

9. Special Provision Regarding Past Assistance to Vectorbeam from Cinematronics: In addition to all other sums, Notes and royalties payable to Cinematronics, commencing on January 1st, 1981, Exidy will pay to Cinematronics One (1%) percent of the net sales of Vectorbeam. This override shall continue until Cinematronics has received a sum equal to ~~\$100,000~~ present value with interest at eight (8%) percent from date until paid.

10. Special Provision Regarding Note of ~~\$150,000~~: On March 10, 1979, Vectorbeam borrowed ~~\$150,000~~ from Cinematronics. The parties agree to re-write that Note (in conjunction with the Notes in paragraph 11 below) to provide that the principal and accrued interest shall be computed as of December 31st, 1979.

11. Long-Term Corporate Notes of Vectorbeam: Vectorbeam has issued approximately \$295,100 of long-term corporate Notes originally payable to Lawrence D. Rosenthal and subsequently assigned in June 1979 to Cinematronics. The total principal and interest due will be calculated as of December 31st, 1979. This sum and the sum payable to Cinematronics on the \$150,000 Note (paragraph 10 above) shall be combined with the \$42,060.01 Vectorbeam originally owed Cramer Electronics but for which Cinematronics has assumed liability. The total of this new Note shall be \$487,160 plus interest as accrued. The terms of the new Note are interest at eight (8%) percent with payments of \$35,000 or more per month commencing March 1st, 1980, until paid in full. At any time, Exidy may wish to prepay this Note and the parties agree to fairly and reasonably negotiate a discount for early payment.

This new Note will be subordinated under normal and usual terms with institutional lenders for inventory and account receivable financing such as the existing \$150,000 and \$295,000 Notes are subordinated to Bank of America.

12. Additional Conditions of the Parties' Obligations:

The obligations of the parties are subject to the additional condition that there shall have been obtained at or prior to the date of closing such permits or authorizations as may be required by any regulatory authority having jurisdiction of the parties

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and the subject matter, including Securities Act of 1933, as amended, and the California Corporate Securities Act, and this sale. In this connection, the Corporate Securities Law of California requires that this agreement, insofar as it pertains to the Common Shares of Vectorbeam, shall contain the following legend:

THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED.

13. Assignment: This agreement shall be binding upon, inure to the benefit of, and be enforceable by the heirs, administrators, executors and assigns of Seller and Purchaser.

14. Governing Law: This agreement shall be governed by the laws of the State of California.

15. Entire Agreement: This agreement contains the entire agreement of the parties for the purchase and sale of the shares of Vectorbeam, and supersedes any prior written or oral agreements between them concerning the subject matter contained herein. There are no representations, agreements, arrangements, or understandings, oral or written, between and among the parties hereto, relating to the subject matter contained in this agreement, which are not fully expressed herein.

16. Counterparts: This agreement may be executed in two or more counterparts, and as so executed, shall constitute one agreement binding on all parties, even if all parties do not sign the original or the same counterpart.

17. Venue: The parties hereto agree that the Superior Courts of the Counties of Santa Clara and San Diego shall be courts

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A LAW CORPORATION
20 CIERVO ROAD
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 881-2800

of competent jurisdiction for enforcement of the terms and provisions of this agreement,

18. Attorneys' Fees: In the event of any controversy, claim or dispute between the parties hereto, arising out of or relating to this agreement or any breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable expenses, attorneys' fees and costs.

IN WITNESS WHEREOF, this agreement has been executed by the parties as dated,

CINEMATRONICS, INC.
A California corporation

Dated: _____, 1979

By: _____
JIM PIERCE, President

Dated: _____, 1979

By: _____
Thomas B. Stroud, Jr., Secretary

EXIDY, INC.
A California corporation

Dated: _____, 1979

By: _____
H. R. KAUFFMAN

_____, 1979

By: _____
HOWELL IVY

COPY

CORPORATE INSTALLMENT NOTE

\$526,942

Union City, California

December ____, 1979

IN INSTALLMENTS as herein stated, for value received, VECTORBEAM, a California corporation, promises to pay to CINEMATRONICS INC., a California corporation, or order, at 1466 Pioneer Way, Suite 6, El Cajon, California, the sum of FIVE HUNDRED TWENTY-SIX THOUSAND NINE HUNDRED FORTY-TWO (\$526,942) DOLLARS, with interest from January 1st, 1980, on unpaid principal at the rate of Eight (8) percent per annum, simple interest; principal and interest payable in monthly installments of Thirty-five Thousand (\$35,000.00) Dollars or more on the first day of each month, beginning on the first day of March, 1980, and continuing until this principal and interest have been paid in full. Each payment shall be credited first on interest then due and the remainder on principal; and interest shall thereupon cease upon the principal so credited. Should default be made in payment of any installment when due, the whole sum of principal and interest shall become immediately due at the option of the holder of this Note. Principal and interest payable in lawful money of the United States. If action be instituted on this Note, Vectorbeam promises to pay such sum as the Court may fix as attorney's fees. This Note is guaranteed by EXIDY, INC., a California corporation.

Vectorbeam,
A California corporation

By: _____

President

ATTEST:

Secretary

EXIDY 3

GUARANTEE

EXIDY, INC., a California corporation, hereby guarantees the Note of Vectorbeam, a California corporation, to Cinematronics, Inc., a California corporation, for Five Hundred Twenty-six Thousand Nine Hundred Forty-two (\$526,942) Dollars and agrees to be responsible for all unpaid obligations to Cinematronics, Inc. on this Note.

Dated: December ____, 1979

EXIDY, INC.

By: _____

H.R. "Pete" KAUFFMAN, President

By: _____

Secretary

TEMPEST PRODUCTS
33441 Central Avenue
Union City, CA. 94587

EQUIPMENT RENTAL AGREEMENT

VECTORBEAM

DATE: 9/18/78.

33441 Central Avenue

Union City, CA. 94587

LOT FURNITURE AND EQUIPMENT (LIST ATTACHED) TO BE RENTED TO VECTORBEAM AT THE RATE OF \$1000.00 PER MONTH, RATE TO BE REDUCED TO \$667.00 IN CONSIDERATION OF VECTORBEAM ALLOWING TEMPEST PRODUCTS TO STORE ITS INVENTORY OF MERCHANDISE AND SUPPLIES IN THE PAINT ROOM OF VECTORBEAM'S FACILITY. THE MONTHLY RENTAL RATE WILL REMAIN AT \$667.00 UNTIL SUCH TIME AS TEMPEST PRODUCTS VACATES THE PAINT ROOM SPACE, AT WHICH TIME RENT WILL BE \$1,000.00 PER MONTH. RENTAL FOR THE INITIAL PERIOD WILL BE AS FOLLOWS: SEPTEMBER \$333.50

OCTOBER \$667.00

TOTAL \$ 1,000.50 PAID IN ADVANCE

THEREAFTER, BEGINNING NOVEMBER 1, 1978, RENTAL TO BE BILLED QUARTERLY. VECTORBEAM WILL HAVE THE OPTION TO PURCHASE THIS EQUIPMENT AT PURCHASE PRICE AGREED UPON AT TIME OF SALE. UNTIL SUCH TIME AS VECTORBEAM EXERCISES ITS OPTION TO PURCHASE AND MAKES PAYMENT IN FULL FOR SAID LOT FURNITURE AND EQUIPMENT, ALL FURNITURE AND EQUIPMENT SHALL REMAIN THE SOLE PROPERTY OF TEMPEST PRODUCTS.

RENTAL PAYMENTS WILL BE DUE WITHIN SIXTY DAYS OF THE CLOSE OF THE QUARTER BILLED.

TEMPEST PRODUCTS

By: Silvestre

VECTORBEAM

By: Lawrence D. Recarte

EXHIBIT C

VEHICLE LEASE AGREEMENT

Date 3/19/79

LOREN R. GREENEICH whose address is 942 CHELAN DR., SUNNYVALE,
California (herein called the "Lessor") hereby leases to VECTORTEAM whose address is
41 CENTRAL UNION CITY, California, herein called the "Lessee" the following described
or vehicle (herein called "Vehicle"). Lessor also makes the following cost, term and liability
closures on behalf of _____, California; to
Lessor intends to assign this lease.

DESCRIPTION OF VEHICLE

Model Year	Make	No. of Cyl.	Model	Identification No.
1979	MAZDA	ROTARY	RX-7	SA220534312

Equipment and Accessories

LEASE TERM AND VEHICLE DELIVERY

This lease is for a term of 36 months, beginning on 3/19/79 and ending on 3/20/82.
Lessor will use reasonable diligence to effect delivery of vehicle at the time of lease
execution, or as soon as practical thereafter.

PAIDMENTS DUE UPON LEASE EXECUTION

Lessee agrees to pay Lessor a total of \$ 719.00 upon execution of this lease, which includes
\$ 574.00 as an advance payment (to be credited to initial Value of Vehicle); \$ 145.00
for license and registration fees for the first 12 months of the lease term; and \$ 0.00
for sales or use taxes.

MONTHLY PAYMENTS AND LATE CHARGES

Lessee agrees to pay Lessor 36 monthly payments of \$ 239.14 each, for a total of \$ 8609.04
in monthly payments during the term of the lease. Each monthly payment shall include
\$ 0.00 for sales or use taxes. (Because sales or use taxes may change during the term
of the lease, the above payment amounts and payment total shall be considered an estimate.)
The first monthly payment is due on 4/20/79, and the remaining monthly payments shall
be due on the 20 day of each following month. Lessor may impose one late charge of \$
in any monthly payment more than 10 days past due.

OFFICIAL FEES AND TAXES

Lessee agrees to pay when due all official fees and taxes imposed during the lease term.
Lessor estimates the total of official fees and taxes due during the lease term will be
\$ 440.00, which includes sales or use taxes of \$ 0.00, and license and registration
fees of \$ 440.00.

INITIAL LEASE COSTS

Total Lease Obligation \$ 13424.73
(Sum of the advance payment under Item 3, the total of monthly payments under Item 4,
and the estimated end of term value of the vehicle under Item 7b.)
Initial Value of Vehicle \$ 10499.30
Differential (a minus b) \$ 2925.43

These amounts are estimates to the extent that sales and use tax components may be changed
during the term of the lease.

TERMINATION LIABILITY

Early Termination

If Lessee terminates the lease before the scheduled termination date as permitted in
Item 8, the Lessee's termination liability shall be: (1) the initial value of the vehicle
(Item 6b) less all amounts credited to that initial value before termination and less the
realized value of the vehicle, and (2) any charges or amounts arising from Lessee's
failure to perform his or her obligations under this lease.

Scheduled Termination

On the basis of current circumstances and available information, Lessor estimates that the
wholesale value at the end of the lease term will be \$ 3952.69. If the realized
value of the vehicle at that time is greater than the estimated value, Lessee will have
no further liability under this lease except for any charges or amounts arising from
Lessee's failure to perform fully his or her lease obligations. If the realized value of
the vehicle is less than the estimated value, Lessee shall be liable for the difference
up to \$ 717.42, which is the sum of three monthly payments, plus any costs or charges
arising from Lessee's failure to perform fully his or her lease obligations. Lessee shall
also be liable for a difference in excess of three monthly payments if:

1. It is attributable to the excessive use of, or damage to, the vehicle, See Items 9,
10, and 13 regarding maintenance, standards for wear and tear, and damage,
respectively.
2. Lessee agrees, after the end of the lease term, to make a higher payment.
3. Lessor prevails in a legal action for a higher payment. If, in such event, the
excessive difference is not totally attributable to excessive use or damage to
the vehicle. Lessor must prove that its estimation of end of term value was
reasonable and was made in good faith. For example, Lessor might prove that the
realized value was less than the estimated value because of an unanticipated
decline in value for that type of vehicle, and that the original determination
of the estimated value was reasonable. Unless Lessor proves that the excessive

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difference was the result of excessive use or damage. Lessor will pay Lessee's reasonable attorney's fees, if any.

TERMINATION AND VALUATION OF VEHICLE

Lessee or Lessor may terminate this lease at any time after 12 monthly payments have been made. Notwithstanding that written notice is provided at least 30 days in advance thereof, Lessee shall return the vehicle to a place designated by Lessor whether the lease is terminated early, or as scheduled.

Upon its return, the value of the vehicle will be established promptly for the purpose of determining Lessee's net termination liability. Within 10 days following the return of the vehicle, its realized value will be ascertained by: (a) a written agreement between the Lessee and the Lessor, or (b) a professional appraisal of the wholesale value of the vehicle by a qualified independent third party, obtained by Lessee at Lessee's sole expense, who is acceptable to both Lessor and Lessee. If the realized value of the vehicle is not determined by (a) or (b) above, it may be ascertained by: (c) the procurement of three written cash bids at wholesale with the highest bid being deemed the realized value; or (d) a sale at wholesale for the highest cash bid. With respect to (d), Lessee may submit a cash bid for the purchase of the vehicle, which Lessor shall consider along with the other bona fide cash bids, but Lessor shall accept only the highest bid.

MAINTENANCE

Lessee agrees to service and operate the vehicle in accordance with manufacturer's warranty requirements and operating instructions, to maintain the vehicle in good working order and condition, and to make necessary repairs and replacements at Lessee's own expense. Lessor shall be permitted to inspect the vehicle at any reasonable time to determine that it is free from damage and in good operating condition.

STANDARDS FOR WEAR AND TEAR

Lessor's estimation of end of term value of the vehicle (See Item 6b) is based on Lessee driving the vehicle an average of 15,000 miles annually. Lessee is permitted unlimited mileage hereunder but mileage in excess of the above figure may decrease the end of term value below the estimated amount. Lessor may therefore impose an excessive mileage charge which will be the product of the mileage in excess of the above figure times a rate not to exceed 5¢ per mile. This charge will be imposed only on scheduled terminations where the realized value of the vehicle is less than its estimated value and then only to the extent of such deficiency.

If Lessee performs his or her obligations under Items 9 and 13, the costs and expenses necessary to put the vehicle in disposable condition should not exceed \$50. If Lessor's costs and expenses therefore do exceed \$50, such excess shall be deemed to be caused by unreasonable wear and tear, and Lessee agrees to be liable for such excess.

INSURANCE

Lessee agrees to maintain, at Lessee's sole expense, the following insurance coverage regarding the vehicle during the lease term and until Lessee returns the vehicle to Lessor on termination: (a) comprehensive, including fire and theft, for the actual cash value of the vehicle; (b) collision for the actual cash value of the vehicle with a maximum deductible of \$250 (Lessee shall be further liable for the deductible amount); (c) public liability for bodily injury or death to any one person for \$100,000, and for any one accident for \$300,000, and property damage for \$25,000. The insurance policy must be endorsed showing "the bank" as "loss payee" on coverages "a" and "b" and additional insured on coverages "c" and "d", and the policy should provide further that "the bank" will be given 10 days notice of cancellation or of any reduction in coverage. Lessee agrees to furnish "the bank" with satisfactory evidence of the insurance coverage required, by an insurance company which is acceptable to "the bank". In the event Lessee does not maintain the insurance required by this item, Lessor may at its option obtain such coverage and Lessee agrees to pay Lessor the premium therefor upon Lessor's demand.

USAGE

Lessee agrees to use and operate the vehicle in compliance with all requirements of any governmental authority, including without limitation such requirements as pertain to the registration and licensing of drivers. In no event shall the vehicle be used or operated for illegal purposes, or by any person under the influence of alcohol, drugs or narcotics, or by any person when an uninsurable risk at regular insurance rates, or for the transportation of goods or persons for hire, or for the transportation, keeping or concealing of narcotics. Lessee agrees not to remove, store, or use the vehicle inside the State of California for a period exceeding 30 days without Lessor's prior written consent and not to remove, store or use the vehicle outside the United States without Lessor's prior written consent. Lessee agrees to be solely responsible for all operating expenses incurred in connection with the use of the vehicle.

DAMAGE, DESTRUCTION OR LOSS OF VEHICLE

Lessee agrees to bear the risk of loss, damage or destruction of the vehicle, its cargo, and contents, resulting from any cause and agrees to notify immediately Lessor in the event of any such happening or threat of such happening. If the vehicle is destroyed or, in the opinion of Lessor, is damaged beyond reasonable repair, the lease shall be deemed terminated. If the vehicle is not available to Lessee or is subject to undue peril in the opinion of Lessor, Lessor may terminate the lease. In the event the lease is terminated under this item, Lessee's

termination liability shall be determined by the provisions of Item 7a. provided, however that Lessor is entitled to a minimum of 12 monthly payments as a condition precedent thereto. Any insurance proceeds received by Lessor as loss payee shall be applied to Lessee's termination liability.

WARRANTIES

The vehicle is subject to a manufacturer's new car warranty and Lessor assigns to Lessee all of its rights thereunder to the extent they are assignable. Lessor makes no warranties, express or implied, of merchantability or any particular purpose with respect to the vehicle.

TITLE, NO PURCHASE OPTION OR ASSIGNMENT RIGHTS

Lessee shall have no right, title or interest as to the ownership of the vehicle and shall have no option to purchase the vehicle during or at the end of the lease term. Lessee shall not assign this lease or any interest therein or sublet the vehicle.

INDemnITY

Lessee agrees to indemnify and hold harmless the Lessor from all losses, damages, injuries, claims, demands, costs, legal and other expenses arising out of the use or operation of the vehicle, including, without limitation, all vehicle defects. Without limiting the generality of the foregoing, this indemnity includes any claim under the doctrine of strict liability.

DEFAULT

If Lessee defaults in the payment of any monthly payment or any other sums payable hereunder, or fails to comply with any other of the terms of this lease, or if Lessee is adjudicated bankrupt or becomes insolvent or makes an assignment for the benefit of creditors or assigns, transfers, lien or encumber its interest, or its creditors file for relief under any bankruptcy or similar law for the relief of debtors, or if a receiver be appointed for any of the assets of Lessee, then Lessor at its option may declare this lease in default. Upon Lessor declaring this lease in default, the vehicle and any rights of Lessee therein shall be surrendered to Lessor and Lessor may take possession of the vehicle wherever it may be found and may enter upon the premises of Lessee for that purpose. Lessor may take possession of all property found in the vehicle when retaken and store such property on behalf of Lessee. Repossession or any sale made by Lessor of the vehicle shall not affect the right of Lessor to recover from Lessee any and all damages which Lessor shall have sustained by reason of the breach by Lessee of any of the terms of the lease. Without limiting the generality of the foregoing, in the event the lease is terminated because of Lessee's default, Lessee's termination liability shall be determined by the provisions of Item 7a, provided, however, that Lessor is entitled to a minimum of twelve monthly payments as a condition precedent hereto. The remedies herein provided in favor of Lessor upon default of Lessee shall not be deemed to be exclusive, but shall be cumulative and in addition to all other remedies in Lessor's favor, existing in law, equity or bankruptcy. In the event Lessee defaults hereunder, Lessor shall be entitled to recover from Lessee, in addition to damages, all costs and expenses, including court costs and reasonable attorney's fees as permitted by law.

ENTIRE AGREEMENT AND WAIVER

This instrument constitutes the entire agreement between the parties and may be amended only by a written instrument signed by the parties. Any waiver of the performance of any of the terms hereof by either party shall not be construed as thereafter waiving any such terms, and same shall remain in full force and effect, as if no such waiver had occurred. Time is of the essence of this lease.

ASSIGNMENT AND APPLICABLE LAWS

Each party signing this lease as Lessee shall be jointly and severally liable under the terms of this lease. This lease shall be binding upon the parties, and their respective heirs, executors, administrators and successors or assigns, and shall be construed and interpreted under the laws applicable in the State of California. Each executed copy of this lease shall constitute a duplicate original.

1. NOTICE TO LESSEE-DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT, OR IF IT CONTAINS ANY BLANK SPACES TO BE FILLED IN. YOU ARE INTITLED TO A COMPLETELY FILLED IN COPY OF THIS AGREEMENT.

IF YOU DEFAULT IN THE PERFORMANCE OF YOUR OBLIGATIONS UNDER THIS AGREEMENT, THE VEHICLE MAY BE REPOSSESSED AND YOU MAY BE SUBJECT TO SUIT AND LIABILITY FOR THE UNPAID INDEBTEDNESS EVIDENCED BY THIS AGREEMENT.

Samuel D. Rios, H.C.
Lessee

1. WARNING-UNLESS A CHARGE IS INCLUDED IN THIS AGREEMENT FOR PUBLIC LIABILITY OR PROPERTY DAMAGE INSURANCE, PAYMENT FOR SUCH COVERAGE IS NOT PROVIDED BY THIS AGREEMENT.

Samuel D. Rios, H.C.
Lessee

ee hereby acknowledges delivery of a completely filled in copy of this lease,

Samuel D. Rios, H.C.
Lessor

Samuel D. Rios, H.C.
Lessee

EMPLOYMENT CONTRACT

AGREEMENT made this 12 day of ^{February 1978} December, 1978, by and between VECTORBEAM, a California corporation, of at 33441 Central, Union City, California, referred to as "Employer", and GILBERT J. LEVINE, presently residing in ^{Fresno} Oakland, California, referred to as "Employee":

FIRST

TERM OF EMPLOYMENT

The Employer hereby employs the Employee and the Employee hereby accepts employment with the Employer for a period of Five (5) years beginning on the 1st day of January, 1979 and continuing until December 31st, 1983.

SECOND

DUTIES OF EMPLOYEE

The Employee is hereby hired as the Vice President-General Manager and Chief Financial Officer of Vectorbeam and shall work at the corporation's principle place of business. The employee shall have the duties and responsibility of the day-to-day management of the business and shall implement the strategy dictated by the President and the Board of Directors.

ENGAGING IN OTHER EMPLOYMENT

The Employee during the term of this contract may engage in other business or professional activity provided that none of it is for any other person or organization that competes with

Phillip Seymour DeCora
A LAW CORPORATION
COUNTRY OFFICES
4370 ALPINE ROAD, SUITE 204
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 851-2500

EXHIBIT ←

the business of the Employer in any manner whatsoever. Also, it is specifically agreed that Levine may work as a consultant and/or manager for Rosenthal or for other Rosenthal/Levine activities without being in conflict with this Employment Contract.

LOYAL AND CONSCIENTIOUS

PERFORMANCE OF DUTIES

The Employee agrees that to the best of his ability and experience he will at all times loyally and conscientiously perform all of the duties and obligations either expressly or implicitly required of him by the terms of this agreement.

THIRD

COMPENSATION OF EMPLOYEE

COMPENSATION

Throughout the five (5) year term of this contract, the parties expect the annual rate for Employee will probably increase. The initial annual rate is \$40,000.00 per annum, which ^{NOV 1978} If in any event an annual rate can not be agreed is substantially equal to the President's annual rate. The upon, the going rate for a general manager in a company parties intend to maintain substantial equivalency of the annual rate of both the President and Employee and, in any event, Employee's annual rate should not be less than 75% of the President's annual rate. If the Employer terminates the employment of the Employee under terms inconsistent with the Employer's right to terminate this employment, the Employee shall receive the last agreed annual rate for the balance of the term of this agreement.

Employer agrees it will not attempt to defeat the intent of this agreement by artificially reducing the annual rate of Employee and then terminating the employment.

Employee on his part, recognizes that Employer, in addition to the conditions for Termination of Employment in Article NINTH, may be entitled to terminate or temporarily suspend this agreement.

Phillip Seymour DeCuro

A LAW CORPORATION
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4370 ALPINE ROAD, SUITE 204
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 851-2550

if the payments to Employee would then be an unreasonable burden because of Employer's business volume and profitability. Some considerations which Employer and Employee shall consider under the subparagraph are:

(1) Is Employee replaced, and if so, by whom, and at what annual rate?

(2) What is the realistic effect of Employer honoring its commitment--would it create insolvency or just financial difficulty? What compensation are other employees receiving--and of course, what compensation is Rosenthal receiving?

(3) What is the volume of business? How does this compare with historical levels of business?

(4) If Employer would be justified in not honoring its commitment to Employee, then is this condition temporary or is it reasonable that the obligation to Employee be temporarily suspended? Unless this condition is clearly permanent, any suspension shall be considered temporary.

NON-QUALIFIED PENSION PLAN

If, in addition to the Employee benefits set forth in Article Fourth, Employer establishes a key man non-qualified pension plan, Employee shall be entitled to fully participate in any such plan. For this purpose the Employee shall execute an agreement to enter into the pension plan established by the Employer. The Employee agrees to abide by the provisions of any such pension plan.

VACATION PAY

The Employee shall be entitled, after he has been in the employ of the Employer for one (1) year, to an annual vacation leave of two (2) weeks at full pay. After he has been in the employ of the Employer for two (2) years or more, the Employee

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4370 ALPINE ROAD, SUITE 204
PORTOLA VALLEY, CA 94028
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shall be entitled to an annual vacation leave of (3) weeks at full pay. The time for such vacation shall be selected by the Employee and approved by the Employer, and it must be taken within one (1) year after it has accrued. In lieu of the vacation leave hereinbefore specified, the Employee may elect to receive payment for the whole or any portion of the vacation time to which he is entitled, such vacation time to be valued at the amount of salary earned by the Employee during an equivalent period of time.

PAID SICK LEAVE

The Employee, upon completion of six (6) months in the service of the Employer, shall be entitled to ten (10) days per year as sick leave with full pay. Such sick leave may be accumulated up to a total of forty-five (45) days.

CONTINUATION OF SALARY

If the Employee becomes disabled during the employment term because of sickness, physical or mental disability, or for any other reason, so that he is unable to perform his duties hereunder, the Employer agrees to pay Employee 50% of the then existing annual rate during such disability but not beyond the date specified herein for the end of the employment term.

HOLIDAYS

The Employee shall be entitled to a holiday on the following days with full pay: Washington's Birthday, Easter, Memorial Day, Independence Day, Labor Day, Armistice Day, Thanksgiving, Christmas and New Years.

DEDUCTION FOR TAXES

The Employer shall have the right to deduct from the compensation due to the Employee any and all sums required for social security and withholding taxes and for any other federal,

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4370 ALPINE ROAD, SUITE 204
PORTOLA VALLEY, CA 94028
TELEPHONE 14151 651-2500

state, or local tax or charge which may now be in effect or is hereafter enacted or required as a charge on the compensation of the Employee.

FOURTH

EMPLOYEE BENEFITS

MEDICAL AND DENTAL BENEFITS

The Employer agrees to include the Employee in any hospital, surgical, and medical benefit plan adopted by the Employer.

GROUP LIFE INSURANCE

The Employer agrees to include the Employee under any Employer's group term life insurance policy.

ELIGIBILITY FOR CERTAIN BENEFITS

The Employer agrees that during the employment term herein, the Employee shall be eligible to participate in or receive any bonus, profit-sharing, stock purchase, pension plan, or other plans for the payment of additional compensation or benefits to the employees of the Employer which at any time may have been or may hereafter be adopted by the Employer.

RIGHT OF FIRST REFUSAL TO PURCHASE BUSINESS

In the event of the death or retirement of Rosenthal or if, at any time, he should desire to sell the business or any substantial portion of its assets, the Employee shall have the right of first refusal to purchase the business from Rosenthal or his estate together with its trade name and good will for an amount equal to the amount of any bona fide offer received by Rosenthal or his representative from a third party, and the Employee shall have thirty (30) days after receiving written notice of such bona fide offer to exercise this right of first refusal by giving written notice to Rosenthal or his representative.

~~The terms of purchase shall be identical to the bona fide offer or as agreed upon by these parties, except that my portion~~ JIK

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Phillip Seymour DeCoro

A LAW CORPORATION
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4370 ALPINE ROAD, SUITE 204
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 881-2300

of the purchase price. ~~Unpaid-in cash shall be represented by a promissory note signed by the Employee as maker and bearing a rate of interest and number and size of monthly installments mutually agreed upon by the parties. Such promissory note shall be secured by appropriate trust deeds and security agreements on the real and personal property of the business and shall contain a standard acceleration clause making the entire unpaid balance of the note due and payable at the option of the payee on a default of the maker.~~ *Y.T.F.*

In conjunction of the sale, the Employee shall agree to indemnify and hold the Employer or his estate harmless from all claims arising from the conduct of the business by the Employee.

Upon the payment by the Employee ~~of the cash part of the purchase price and the delivery of a promissory note for the balance as provided herein~~ together with the indemnity agreement hereinabove mentioned, the Employer or his executor or administrator shall execute and deliver to the Employee a bill of sale for the business and of its tangible and intangible assets, including its good will and trade name, and such bill of sale shall be effective as of the date of transfer if Rosenthal is living or as of the date of Rosenthal's death if he is not living. *Y.T.F.*

FIFTH
REIMBURSEMENT OF EXPENSES
INCURRED BY EMPLOYEE

The Employee is authorized to incur reasonable business expenses for promoting the business of the Employer, including expenditures for entertainment, gifts, and travel. The Employer will reimburse the Employee from time to time for all such business expenses.

With regard to all business expenses incurred by the Employee for promoting the business of the Employer, including expenditures for entertainment, gifts, and travel, for which he is to be reimbursed by the Employer, the Employee agrees that he will furnish to the Employer adequate records and other documentary evidence required by all Federal and State statutes and regulations issued by the appropriate taxing authorities for the substantiation of each such business expense as a deduction on the Federal and State income tax returns of the Employer.

MOVING EXPENSES

In the event that the Employee during the term of this agreement is transferred by the Employer to a new principal place of work at least twenty-five (25) miles away from his then principal place of work and if the Employee as a result decides to move his residence, the Employer will reimburse the Employee for all reasonable expenses incurred,

(1) The making of a one way trip, including meals and lodging, by the Employee, his spouse, and minor children from his then residence to the new place of residence selected by him; and

(2) Moving the household goods and personal effects of the Employee, his wife, and his minor children from his then residence to the new place of residence selected by him.

SIXTH

PROPERTY RIGHTS OF THE PARTIES

INVENTIONS AND PATENTS

The Employee agrees that he will promptly from time to time fully inform and disclose to the Employer all inventions, designs, improvements, and discoveries which he now has or may hereafter have during the term of this agreement which pertain

or relate to the business of the Employer or to any experimental work carried on by the Employer, whether conceived by the Employee alone or with others and whether or not conceived during regular working hours. All such inventions, designs, improvements, and discoveries shall be the exclusive property of the Employer. The Employee shall assist the Employer to obtain patents on all such inventions, designs, improvements, and discoveries deemed patentable by the Employer and shall execute all documents and do all things necessary to obtain letters patent, vest the company with full and exclusive title thereto, and protect the same against infringement by others.

TRADE SECRETS

The Employee during the term of employment under this agreement will have access to and become acquainted with various trade secrets, consisting of formulas, patterns, devices, secret inventions, processes, and compilations of information, records, and specifications, which are owned by the Employer and which are regularly used in the operation of the business of the Employer. The Employee shall not disclose any of these trade secrets, directly or indirectly, or use them in any way, either during the term of this agreement or at any time thereafter, except as required in the course of his employment. All files, records, documents, drawings, specifications, equipment, and similar items relating to the business of the Employer, whether prepared by the Employee or otherwise coming into his possession, shall remain the exclusive property of the Employer and shall not be removed from the premises of the Employer under any circumstances whatsoever without the prior written consent of the Employer.

RETURN OF THE EMPLOYER'S PROPERTY

On the termination of his employment or whenever requested by the Employer, the Employee shall immediately deliver to the Employer all property in his possession or under his control belonging

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Phillip Seymour DeCaro
A LAW CORPORATION
COUNTRY OFFICES
4370 ALPINE ROAD, SUITE 304
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 951-2800

to the Employer in good condition, ordinary wear and tear and damage by any cause beyond the reasonable control of the Employee excepted.

SEVENTH

OBLIGATIONS OF THE EMPLOYER

INDEMNIFICATION OF LOSSES OF EMPLOYEE

The Employer shall indemnify the Employee for all losses sustained by the Employee in direct consequence of the discharge of his duties.

EXAMINATION OF BOOKS

The Employee shall have the right either personally or by an agent or accountant retained and paid by him to examine the books and accounts of the Employer at times mutually convenient to the Employee and the Employer, but in any event at least once during each half of the calendar year, to examine the books and accounts of the Employer insofar as they relate to transactions affecting the amount of the Employee's compensation.

EIGHTH

OBLIGATIONS OF EMPLOYEE

NONCOMPETITION BY EMPLOYEE

During the term of this contract, except for his activities with Rosenthal, the Employee shall not directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the business of the Employer.

TERMINATION OF EMPLOYMENT

TERMINATION OF AGREEMENT BY EMPLOYER

This agreement shall terminate immediately on the occurrence of any one of the following events:

- (1) The death of the Employee.
- (2) The loss by the Employee of legal capacity.
- (3) The wilful breach of duty by the Employee in the course of his employment, unless waived by the Employer.
- (4) The habitual neglect by the Employee of his employment duties, unless waived by the Employer.

TERMINATION OF AGREEMENT BY EMPLOYEE

This agreement may be terminated by the Employee by giving Ninety (90) days' written notice of termination to the Employer. Such termination shall not prejudice any remedy which the terminating party may have either at law, in equity, or under this agreement.

TERMINATION OF AGREEMENT ON
DISCONTINUANCE OF BUSINESS

If the Employer permanently ceases the operation of all its business, and there is no substantive or actual assignee, transferee, or successor business, then this agreement shall terminate as of the effective date of the discontinuance of business.

EFFECT OF EMPLOYER'S MERGER, TRANSFER
OF ASSETS, OR DISSOLUTION

This agreement shall not be terminated by any:

- (1) Merger where the Employer is not the surviving corporation;
- (2) Transfer of all or substantially all of the assets of the Employer; or

In the event of any such merger or transfer of assets, the surviving corporation or the transferee of the Employer's assets shall be bound by and shall have the benefit of the provisions of this agreement; the Employer shall take all actions necessary to insure that such corporation or transferee is bound by the provisions of this agreement.

DAMAGES FOR BREACH OF CONTRACT

In the event of a breach of this agreement by either the Employer or the Employee resulting in damages to the other party, that party may recover from the party breaching the agreement any and all damages that may be sustained.

ARBITRATION

Any controversy between the Employer and the Employee involving the construction or the application of any of the terms, provisions or conditions of this agreement, shall on the written request of either party served on the other be submitted to arbitration, and such arbitration shall comply with and be governed by the provisions of the California Arbitration Act, Sections 1280 through 1294.2 of the California Code of Civil Procedure. The Employer and the Employee shall each appoint one person to hear and determine the dispute and, if they are unable to agree, then the two persons so chosen shall select a third impartial arbitrator whose decision shall be final and conclusive upon both parties. The cost of arbitration shall be borne by the losing party or in such proportions as the arbitrator shall decide.

ATTORNEY'S FEES AND COSTS

If any action at law or in equity is necessary to enforce or interpret the terms of this agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs, and necessary disbursements in addition to any other relief to which he may be entitled.

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A LAW CORPORATION
COUNTRY OFFICES

4270 ALPINE ROAD, SUITE 204
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 951-2800

GENERAL PROVISIONS

NOTICES

Any notices to be given by either party to the other may be either by personal delivery in writing or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the parties at last known address of the other. Notices delivered personally shall be deemed communicated as of actual receipt; mailed notices shall be deemed communicated as of two (2) day(s) after mailing.

CONTAINMENT OF ENTIRE AGREEMENT HEREIN

This agreement supercedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of the Employee by the Employer and contains all of the covenants and agreements between the parties with respect to such employment in any manner whatsoever. Each party to this agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement, or promise not contained in this agreement shall be valid or binding. Any modification of this agreement will be effective only if it is in writing signed by the party to be charged.

PARTIAL INVALIDITY

If any provision in this agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.

LAW GOVERNING AGREEMENT

This agreement shall be governed by and construed in accordance with the laws of the State of California.

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A LAW CORPORATION
COUNTRY OFFICES
4370 ALPINE ROAD, SUITE 206
PORTOLA VALLEY, CA 94028
TELEPHONE (415) 851-2860

If the Employee dies prior to the expiration of the term of employment, any moneys that may be due him from the Employer under this agreement as of the date of his death shall be paid to his executors, administrators, heirs, personal representatives, successors, and assigns.

EXECUTED AT UNION CITY, California, on the
 Day and year first above written.

EMPLOYER:

VECTORBEAM

By: James D. Ruc-hal per: 1/1/77

EMPLOYEE:

Gilbert J. Levine 2/14/77
 GILBERT J. LEVINE

Gale E. Gatto

Phil's copy

the contracts
 of Dec 4, 1979 between
 Enchirion + Enidy are
 integral in Enchirion's holding
 Enidy's shares in Enchirion; contract of
 agreement with Enchirion.

30th of November,
 a corporation (herein-
 iformia corporation

as follows:

Seller represents
 ent is made in

has been duly

incorporated, and is validly existing and in good standing as
 a corporation under California law.

(b) The Company has a total of Three Hundred Ninety
 Thousand (390,000) shares of capital stock (the "Shares") outstanding
 all of the Shares have been legally and validly issued.

EXHIBIT